

Message Text

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ACTION EB-11

INFO OCT-01 ARA-16 ISO-00 AEC-11 AID-20 CEA-02 CIAE-00

CIEP-02 COME-00 DODE-00 FEA-02 FPC-01 H-03 INR-10

INT-08 L-03 NSAE-00 NSC-07 OMB-01 PM-07 RSC-01 SAM-01

SCI-06 SPC-03 SS-20 STR-08 TRSE-00 PA-04 USIA-15

PRS-01 DRC-01 /165 W

----- 060722

R 111732Z MAR 74

FM AMEMBASSY QUITO

TO SECSTATE WASHDC 0262

INFO AMEMBASSY BOGOTA

AMEMBASSY CARACAS

AMEMBASSY LIMA

AMCONSUL GUAYAQUIL

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E. O. 11652: N/A

TAGS: ENRG, EC

SUBJECT: ENERGY: BIDDING ON PETROLEUM BLOCKS BRINGS POLICY
INTO QUESTION

1. SUMMARY: RECEIPT OF ONLY TWO BIDS FROM 35 FOREIGN FIRMS
PRE-QUALIFIED TO BID ON ACREAGE IN THE ORIENTE STUNNED THE
GOE AND EXPOSED JUST HOW DISCOURAGING TO NEW EXPLORATION
ECUADOR'S TOUGH OIL POLICY IS. MINISTER OF NATURAL RESOURCES
JARRIN HAS REJECTED THIS EXPLANATION AND BLAMES AN INTER-
NATIONAL CONSPIRACY AND BOYCOTT BY THE MULTI-NATIONALS FOR
THE POOR TURNOUT. THE PRESS IS CRITIZING HIS POLICY STRONGLY.
END SUMMARY.

2. TWO STATE OIL COMPANIES, YPF OF ARGENTINA AND KOPE OF
POLAND, WERE THE ONLY BIDDERS AMONG 35 PRE-QUALIFIED FIRMS
ON FIVE 200,000 HECTARE BLOCKS OFFERED BY CEPE IN BIDDING THAT
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CLOSED FEBRUARY 28. YPF BID ON ONE BLOCK AND KOPEX ON TWO.

FOUR STATE OIL COMPANIES, TWO MIXED COMPANIES, AND TWENTY-SEVEN AMERICAN, EUROPEAN, AND JAPANESE FIRMS DECLINED TO BID AFTER REVIEWING THE TECHNICAL DATA AND TERMS OF THE BIDDING. THE LOW TURNOUT CAME AS A SURPRISE AND A SHOCK TO CEPE AND THE MINISTRY OF NATURAL RESOURCES. THE WORLD SHORTAGE OF PETROLEUM AND THE LARGE NUMBER OF COMPANIES THAT REQUESTED THE FREE TECHNICAL DOCUMENTS ON THE BLOCKS HAD LED THE GOE OFFICIALS TO EXPECT KEEN COMPETITION IN THE BIDDING. THEY DISCOUNTED THE INDUSTRY'S CONCLUSION THAT THE FIVE BLOCKS WERE NOT THE MOST TECHNICALLY ATTRACTIVE IN THE ORIENTE. (CEPE PLANS TO RESERVE SUCH AREAS FOR ITS OWN EXPLORATION.) THEY BELIEVED THE PETROLEUM COMPANIES WOULD ACCEPT THE TAKE-IT-OR-LEAVE-IT ASSOCIATION TERMS PROFFERED. THESE ARE STIFFER THAN THE TERMS UNDER WHICH TEXACO-GULF OPERATES.

3. BY TOUGHENING THE TERMS FOR OPERATIONS OF THE PETROLEUM INDUSTRY SINCE COMING TO POWER IN 1972, THE GOE HAS DRAMATICALLY INCREASED THE GOVERNMENT'S CONTROL, INVOLVEMENT, AND PROFIT FROM THE INDUSTRY. THE LARGEST FLAW IN THE POLICY HAS BEEN ITS EXTREMELY NEGATIVE EFFECT ON NEW EXPLORATION. THE RESULTS OF THE RECENT BIDDING ARE SUFFICIENT PROOF FOR MOST DOUBTERS THAT ECUADOR'S TERMS ARE UNACCEPTABLY HARSH FOR MOST COMPANIES.

4. AFTER A STUNNED SILENCE, MINISTER OF NATURAL RESOURCES JARRIN HELD A PRESS CONFERENCE MARCH 6 DISMISSING CRITICISM OF HIS NATIONALISTIC PETROLEUM POLICY AND ACCUSING MULTINATIONAL OIL COMPANIES OF BEING ENGAGED IN A CONSPIRACY AND BOYCOTT TO IMPEDE ECUADOR'S PROGRESS. HE RELEASED A TELEGRAM FROM THE ALLEGED RINGLEADER, MINAS Y PETROLEOS. IT PROTESTS INCLUSION OF A PART OF FORMER MINAS ACREAGE IN ONE OF THE BLOCKS. THE MINAS CONTRACT WAS CANCELED BY THE GOE IN EARLY 1973 FOR NON-PAYMENT OF SURFACE RENTALS AND THE TELEGRAM ADVISES OF THE INTENTION OF MINAS OWNERS TO "PROTECT THEIR RIGHTS TO THE FULL EXTENT POSSIBLE". JARRIN ALSO LASHED OUT AT PRESS CRITICS, ACCUSING THEM OF BEING AGENTS OF FOREIGN INTERESTS.

5. THE ATTACK ON THE PRESS HAS MET WITH PREDICTABLY OUTRAGED EDITORIAL REACTION. THE PRESS ALSO REJECTS JARRIN'S USE OF HIS OLD WHIPPING BOY MINAS Y PETROLEOS AS AN EXPLANATION FOR THE LACK OF CONFIDENCE IN ECUADOR BY THE OIL COMPANIES AND THE LIMITED OFFICIAL USE

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PRESS QUESTIONS HIS ALLEGATION OF AN INTERNATIONAL CONSPIRACY. JARRIN IS NOW UNDER STRONGER CRITICISM THAN AT ANY TIME SINCE ASSUMING HIS PORTFOLIO IN 1972. THERE ARE SOME WHO PREDICT HIS DOWNFALL.

6. A DECREE DATED FEB. 28 AND PUBLISHED MARCH 10, ORDERS JARRIN TO INFORM THE PRESIDENT PERSONALLY OF ANY DEAL HE NEGOTIATES FOR THE IMPORTATION OF RECONSTITUTED CRUDE

AND PETROLEUM PRODUCTS. THIS RESTRAINT ON THE MINISTER'S FREEDOM OF ACTION IS UNUSUALLY EXPLICIT.

7. IN TIME THE LOW TURNOUT ON BIDDING SHOULD EVENTUALLY CONTRIBUTE TO A REVISION OF POLICY TOWARD EXPLORATORY COMPANIES. THIS ISSUE HAS NOT HAD TO BE FACED SQUARELY AS LONG AS PETROLEUM PRODUCTION AND GOVERNMENT INCOME HAVE BEEN INCREASING WITH THE PROSPECT OF FURTHER INCREASES. ADDITIONAL PRESSURE FOR MODIFICATION OF EXPLORATION POLICY WILL ARISE IF THE MINISTRY OF NATURAL RESOURCES ORDERS A SHUT-IN OF TEXACO-GULF PRODUCTION OF CONSERVATION REASONS FROM THE PRESENT LEVEL OF 240,000 BPD TO A LEVEL OF 190,000 PBD. THE MINISTRY IS ACTIVELY CONSIDERING THIS MEASURE, WHICH WOULD PRECLUDE APPROACHING PROJECTED 400,000 BPD OUTPUT FROM THE TEXACO-GULF FIELDS BY 1976 AND WOULD FORCE MORE ATTENTION TO THE NEED FOR LOCATING ADDITIONAL DEPOSITS.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM, POLICIES, CENTRAL GOVERNMENT, EXPLORATORY DRILLING, PROPOSALS (BID)
Control Number: n/a
Copy: SINGLE
Draft Date: 11 MAR 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: MorefiRH
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974QUITO01580
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: QUITO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740353/aaaabxov.tel
Line Count: 133
Locator: TEXT ON-LINE
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: MorefiRH
Review Comment: n/a
Review Content Flags:
Review Date: 11 SEP 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <11 SEP 2002 by elyme>; APPROVED <11-Sep-2002 by MorefiRH>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ENERGY: BIDDING ON PETROLEUM BLOCKS BRINGS POLICY INTO QUESTION
TAGS: ENRG, EC
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005